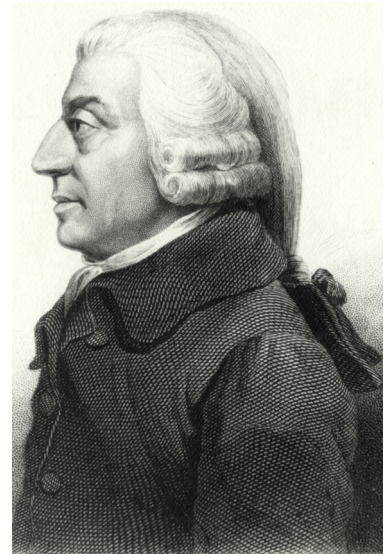


Adam Smith (1723-1790)

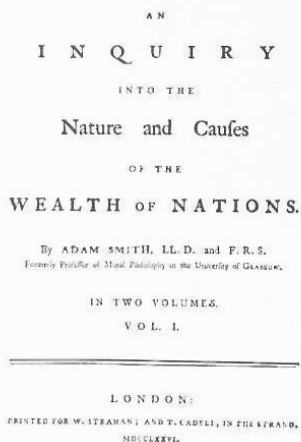
Take a look at a Scottish Penny and you'll be surprised by what you see. The person pictured was not a political or military figure, but an economist: Adam Smith. It is a fitting tribute to a man who contributed so much to economics.

HIS LIFE

Smith was born in Kirkcaldy, Scotland. After graduating from Glasgow University, he traveled to England and enrolled at Oxford University. Six years later, Smith returned to Scotland to lecture at Edinburgh University and at his alma mater, where he was immensely popular with his students. Smith became a tutor to a young duke, and traveled throughout Europe.



HIS IDEAS



Smith met and exchanged ideas with French writer Voltaire, Benjamin Franklin, and the French economist Quesnay. His travels helped him formulate the ideas put forth in *The Wealth of Nations* (1776). In *The Wealth of Nations*, Smith observed that labor becomes more productive as each worker becomes more skilled at a single job. He said that new machinery and the division of labor and specialization would lead to an increase in production and greater “wealth of nations.” Smith also put forth what was then a radical new idea: that the wealth of a nation should be defined as the sum of its labor-produced goods, not by who owned those goods.

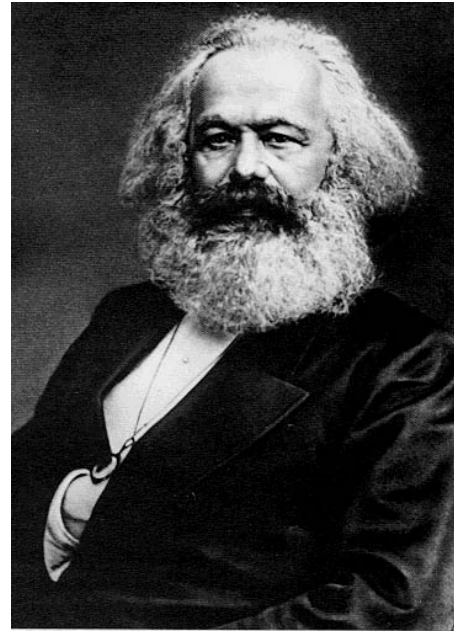
Smith’s most influential contribution, however, concerned competition in the marketplace. Every individual, Smith wrote, “intends only his own gain, and he is in this...led by an invisible hand...By pursuing his own interest he frequently promotes that of the society...” Smith argued that a free market isn’t chaotic, but that competition acts as an “invisible hand” that guides resources to their most productive uses. A truly free, competitive market – operating with minimal government intervention – would bring about the greatest good for society as a whole.

The English aristocracy ridiculed *The Wealth of Nations*. Business people, however, were delighted to have a moral justification for their growing wealth and power. Soon, Smith’s doctrine of *laissez-faire* (French, “let it be”), meaning minimal government intervention in economic affairs, became the economic watchword in Europe, and is today the economic watchword of much of the world.

Karl Marx (1818-1883)

Marx was an economic historian and a social scientist. He studied law and earned his doctorate in philosophy from the University of Jena, but his radical views prevented him from getting a teaching position.

Throughout the 1840's, he wandered from Cologne to Paris to Brussels. He joined with socialist and radical groups. Persecuted by Prussian and Parisian authorities, Marx fled to London in 1849 where he began a life of exile and, eventually, died in poverty.



MARX'S WORKS

Marx is best known for *The Communist Manifesto*, published in 1848, and *Das Kapital*, the first volume of which was published in 1867. In these works, Marx argues that “the history of all hitherto existing society is the history of class struggles.” In each era, one class was pitted against another: master against slave, lord against serf, capitalist against worker – the “oppressor and the oppressed.”

HIS IDEAS



Marx argued that the oppressed of his day was the proletariat – people who must work for others because they have no means of production of their own. Their oppressors? The capitalists or bourgeoisie – people who own the means of production.

Marx argued that labor was exploited in a capitalist society. He gave the name “surplus value” to the difference between the wage paid to the worker and the market value of the worker’s output. He believed this value was unfairly kept by capitalists as profits.

Marx argued that each cycle of prosperity would ass to the suffering of the proletariat and the wealth and power of the capitalists. Eventually, he said, oppressed workers would rise up in a violent revolution. “Let the ruling classes tremble at a communist revolution,” he wrote. “The proletarians have nothing to lose but their chains. They have a world to win. Working men

of all countries, unite!” During the transition, the proletariat would, Marx argued, have to depend on a strong government: a “Dictatorship of the Proletariat.” Thus, authoritarian Communism as practiced in the Soviet Union and other countries was born.

Marx believed that eventually the dictatorship would be replaced by a “classless society,” without government, in which people would produce to the best of their abilities and consume to the extent of their needs.

Name: _____ Date: _____

Adam Smith vs. Karl Marx

Put answers in your own words.

Adam Smith

1. What was the name of Smith's famous essay?
2. Smith stated that abandoning artisanship and embracing division of labor would increase the "wealth of nations". What did he mean by division of labor? Was he right?
3. What is the "invisible hand"? How does it improve a nation's economy?
4. Who favored Smith's philosophy?
5. What is the translation of *laissez-faire*? What does it mean? Does the U.S. government practice *laissez-faire*?
6. Would Smith support the ideas of capitalism or socialism?

Karl Marx

7. What is the name of Marx's famous essay?
8. What did Marx mean in the following statement: "the history of society is the history of class struggle"?
9. Who are the proletariat and the bourgeoisie? Which is the "oppressor" and which is the "oppressed"?
10. What did Marx mean by "surplus value"?
11. What did Marx suggest the oppressed should do?
12. Would Marx support the ideas of capitalism or socialism?